# Garanti BBVA 1Q25 Financial Results Webcast Transcript

Turkish economy in 1Q remained sound, supported by robust domestic demand. Given the strong momentum in the first quarter and the expansionary fiscal stance, we expect GDP growth to be 3.5% this year, that said, we also put a flag on recent uncertainty and tightening in financial conditions.

Inflation is set to decline, supported by tighter financial conditions, moderating private consumption and lower commodity prices. Following the latest internal and external market volatility, we revised up our year-end inflation estimate from 29% to 31%, while acknowledging upside risks from the uncertainty in food prices.

As you all familiar with, following the turmoil, CBRT took all necessary market friendly actions to address economic imbalances, gave a very strong message to rebuild confidence and anchor FX expectations.

Once the effects of recent internal and external shocks begin to fade, the CBRT can again start easing June onwards. Yet, given the potentially higher risk premium levels going forward, we think that CBRT might keep a slightly higher ex post real rate of at least 4pp by year-end.

We expect current account deficit to GDP to slightly worsen to 1.5% of GDP in 2025 due to a deterioration in core trade deficit and increasing net gold imports.

Fiscal policy stayed expansionary in early months of the year, therefore, fiscal consolidation may be more clearly seen in the second half of the year.

Accordingly, we maintain our forecast of a budget deficit at 3.5% of GD, yet . Nevertheless, cash deficit to GDP ratio might remain above 4% due to potential risks on near term growth outlook.

We kicked off 2025 with a solid performance—net income reached 25.4 billion TL .

This marks a 13% YoY growth, with robust ROAE at 30.5% despite relatively low leverage of 9.3x. Our internal capital generation continued the support our capital ratios.

Key driver of this earnings strength is core banking performance – as you can see on page 7.

Core banking continues to be our pillar of strength, delivering unmatched revenue growth and highlighting the sustainable nature of the bank's profitability.

Core NII surged by 68% QoQ, on the back of declining funding costs and resilient loan yields – which I will touch upon this in detail in the coming slides.

Clean trading gain's contribution was relatively modest in this quarter due to recent currency volatility related derivative transactions' MtMs, which can be considered as non-recurring

Net fees also held up well, growing 4% on the back of strong activity.

As a consequence, our core banking revenues to assets reached 7.9% in 1Q, which suggests the highest level and improvement.

A big part of this success stems from our asset mix—now moving into slide 8.

Our lending-driven asset composition remains as a key differentiator.

Performing loans now make up 55% of assets, suggesting a slight decline compared to 4Q, this has to do with robust deposit growth related increase in reserve requirements. Yet, we continue to differentiate with our high share of loans in the mix.

Lending growth was across the board.

I will explain the key drivers of TL loans in the next slide, on FC loans, I would like to highlight that half of the growth was coming from the increasing EUR/USD parity impact.

In securities, we had CPI redemptions during the quarter and we invested in long-term fixed rate securities in the beginning of the year. In FC securities, we had opportunistic purchases during the year.

Moving into slide 9 for further insights on the loan portfolio.

In 1Q, our TL loans grew by 7%, reaching 1.2 trillion. Credit card growth slowed down in 1Q, yet we maintained strong growth momentum in consumer and SME loans.

We gained market share in GPL, mortgages, micro & small enterprises and solidified our leading position in these loan segments.

While growing, we always act with prudency -- now let's look at the evolution of our asset quality.

Increase in Stage-2 loans was limited in 1Q, backed by strong economic activity. Now stage-2 loans make up 10.5% of our gross loans with 11% coverage. More importantly, if we look at TL - FC breakdown, our FC Stage-2 loans coverage remains healthy at 26%.

Now, let's walk through the evolution of our NPLs.

Our asset quality is normalizing.

The NPL ratio rose slightly to 2.6%. In-line with the expectation, majority of net flows was from retail and Credit card portfolio. We are witnessing the natural consequence of robust consumer and credit card growth, sector registered in the last couple of years.

Our total coverage levels remain healthy at 3.6% compared to NPL ratio of 2.6%.

Now, moving into provisioning;

This year we guided for higher Cost of Risk due to increasing NPL inflows from unsecured loans and normalizing large-ticket collections. As of 1Q, we have started to see this trend.

On a reported basis, net provisions excl. currency surged notably, yet last quarter base was exceptionally low due to large-ticket collections and reclassification related provision release of a large ticket item.

Our 1Q Net CoR realized at 1.4%, better than our YE guidance of 2-2.5% level supported by better GDP growth related macro adjustment in provisioning. Despite better-than-expected performance, we maintain our year-end guidance for Cost of risk. In an increasing interest rate environment, our CoR level will converge to our guidance, towards the end of year

Now moving to the other side of the balance sheet—how are we funding this growth?

Not only in assets but also in funding, we rely on customer-driven sources, which is the backbone of our success.

With the outstanding growth we registered in 1Q, Deposits' share in assets increased by 2% and reached 74%. Following the internal developments in mid-March, we witnessed accelerated growth in deposits – both in TL and FC. On TL side, due to increasing deposit rates and conversion from Money market funds, we registered 18% growth. Here, I should admit that 75% of TL deposit growth was coming from retail, which was relatively lower-cost & sticky. Growing demand deposit base, in-line with our expanding customer base, also supported this growth. In TL deposits we gained 1.1% market share among private banks and our market share reached 22%.

On FC side, due to increased dollarization tendency especially among corporates, we witnessed surge in FC deposits. Hence, 70% of FC deposit growth was from corporates and the pace of increase has slowed-down compared to initial reaction in mid-March.

While growing, we always keep a close eye on spread management, as it is visible in Net Interest Income on next page.

In 1Q, we continued to deliver best-in-class NIM amid market shifts.

Our Core NII increased by 68% which alludes to 145bps increase in core margin. This quarter CPI contribution reduced by almost half as we used 28% rate in the valuation of CPI linkers. Accordingly, NIM inc. swap cost increased by 45bps in 1Q.

Looking at the core spreads more detailed, up until mid-March in a declining interest rate environment, we were able to reflect expected rate cut into our TL deposits' pricings. Hence our TL time deposit cost declined by 3%, whereas drop in TL loan yields was limited with 1%. This is the result of effective duration gap management and also strong presence in relatively less interest rate sensitive loan products – namely consumer loans.

In this current macro background, given CBRT's tightening measures, we are observing an increase in funding costs, which also leads to an adjustment in lending yields. That said, current volatility looks more like a postponement in margin recovery than a disruption of the overall story. And the overall impact on NIM will depend on how macroeconomic variables—particularly interest rates and currency levels—evolve in the coming period.

Now, moving into next slide to break down the components of that margin strength in order to underline the sustainability of our performance.

Margin resilience is rooted in our asset and funding strategy.

In our TL assets, the share of TL loans is 58% vs the securities share is only 15%. In a period where loan yields are about 2X higher than securities', this presents a significant and sustainable revenue advantage.

On liabilities, TL time deposit share in TL liabilities is 68%, and here we continue to preserve our funding cost benefit vs repo in an increasing interest rate environment.

Moving to our fees on page 16,

Our fee base remains robust, up 55% YoY.

On an annual basis Payment systems fees continued to lead the growth, yet it's share has started to decelerate in-line with the expectation. On quarterly basis, strong cash and non-cash loan growth, which supports lending related and insurance fees, followed by increasing money transfer fees. Digital penetration continues to rise, number of digital customers reached 17 billion. Our strength in digital banking reinforces fee base by driving growth in customer acquisition and customer penetration.

Moving to our Operating Expenses,

We're keeping our costs under control, growing in line with the budget.

Operating expenses grew 4% QoQ. Quarterly HR cost growth reflects annual salary adjustment and roll-over impact of previous adjustments.

In terms of efficiency, we continue to have the best ratios among private peers as you can see comparative charts on the right hand side.

As per our capital strength,

Our capital generative growth strategy continued to support the solvency and we maintained sector-leading capital ratios even after 20% dividend payout and annual operational risk adjustment. These two had 1.7% impact on CAR.

Our CET-1 ratio stands at 13%, with consolidated CAR at 16.2% without forbearance.

The FC sensitivity on our CAR is a low 15.5bps for every 10% depreciation. We have a strong 105bn TL excess capital, which will support us to absorb any volatility.

Before we conclude, I would highlight like to go through our guidance:

TL loan growth: We expect slightly positive real growth vs. YE inflation forecast.

FC loan growth: Faring in-line with guidance. We continue to abide by regulatory caps on FC loans, an increase in EUR/USD parity could drive FC loan growth to the low teens.

Net CoR: Despite a better-than-expected 1Q performance, we think in an increasing interest rate environment, it will converge to the guided range towards the year-end.

NIM: Within the CBRT's current tight stance we expect some postponement in margins recovery. Also we still need time to see the evolution of macroeconomic variables in the coming periods.